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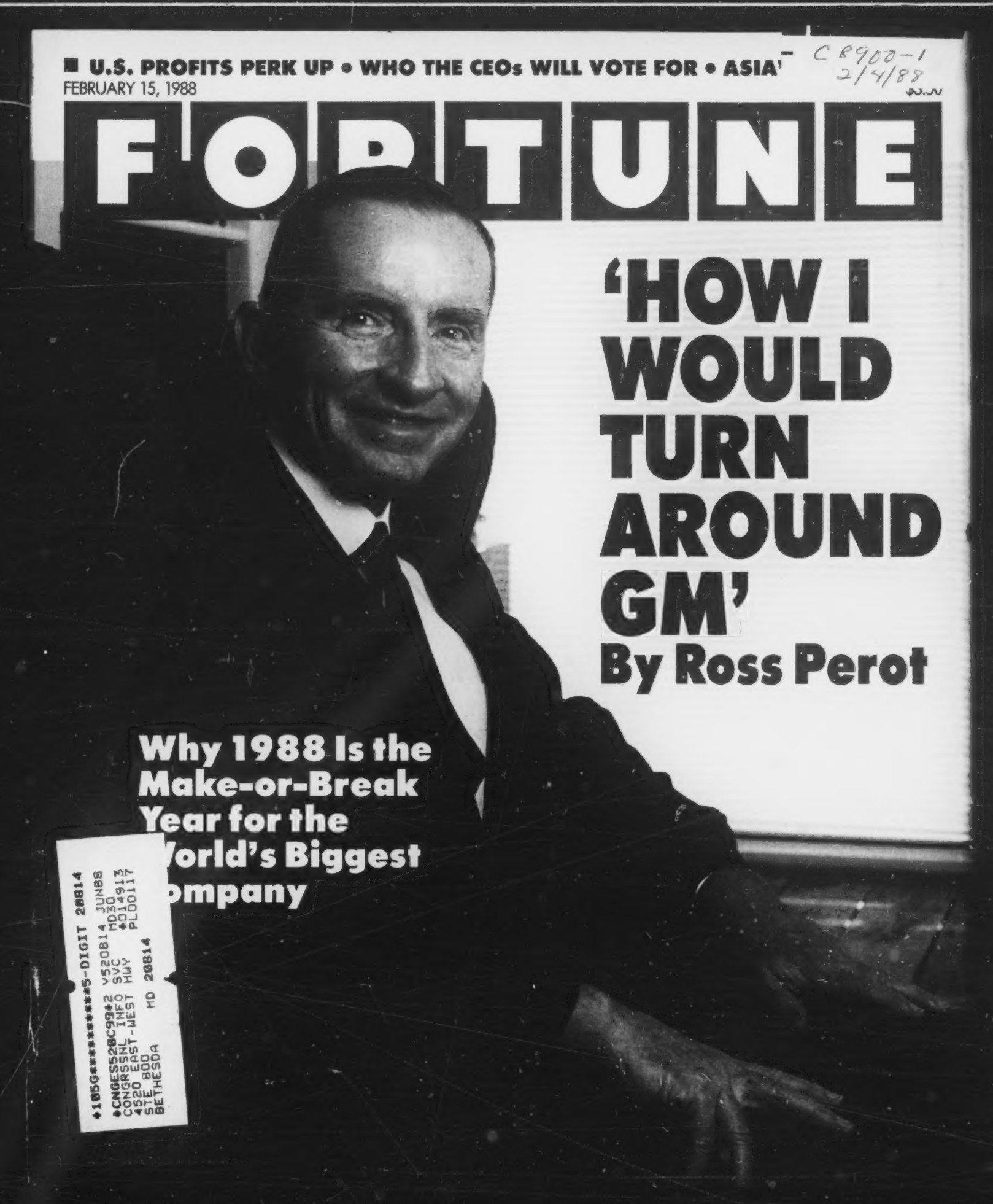
FORTUNE



'HOW I WOULD TURN AROUND GM'

By Ross Perot

Why 1988 Is the Make-or-Break Year for the World's Biggest Company

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FEBRUARY 15, 1988 VOL. 117, NO. 4

FORTUNE

"We've got to nuke the GM system. We've got to throw away Sloan's book."

"The next President has a good chance of being clobbered."

"He was methodical, efficient, steady, and quite composed. It was fairly impressive."

Her vision of her future: "Two people, middle income, both of us working."

"All these supermoms with ten-hour-a-day jobs tell me I'm their ray of sunshine."

"The workaholics aren't going to win in the next generation."

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THE EDITOR'S DESK

Tom Moore, Charles Burck, and Stephen Madden looked under the hood at GM.

JUST AFTER General Motors booted Ross Perot from its board late in 1986, FORTUNE writer Thomas Moore called the Texas billionaire and put a question: Would Perot comment on how he would run GM if given the chance? Recalls Moore: "It was clear that Perot was wound up about the subject and wanted to talk, but in the end his lawyers advised against it."

Undaunted, Moore telephoned Perot repeatedly over the past year, trying to change his mind. His persistence has paid off. In January not only did Perot agree to be interviewed for hours by Moore but, to make sure that nothing would be left out, he wrote a separate 2,500-word manifesto exclusively for FORTUNE. "I can't believe I spent two days writing this," said Perot. "The hard part was boiling it down." Every FORTUNE writer knows just what he means.

Moore, aided by reporter Stephen Madden, also spent hours interviewing Chairman Roger Smith and other high GM officers. We think that you will find our package of stories, which was edited by Charles Burck and begins on page 32, to be riveting journalism.

Our colleague Daniel Seligman writes this appreciation of Charles J.V. Murphy, one of FORTUNE's star writers from the 1930s through the 1970s, who I regret to tell you died recently at 83: "Charlie had a career strongly implying that journalism is a glamorous business. He was with Admiral Byrd at the South Pole, in Managua during the 1931 earthquake, and on an Egyptian steamship sunk by the Germans in 1941. He became an intimate of the Duke and Dutchess of Windsor (whose memoirs he ghosted). Murphy did the big stories: the Bay of Pigs, the King Ranch, the Mellons of Pittsburgh, and nearly 200 more. Somewhere along the way, he even found time to write a children's story, *Little Toot*, about a tugboat in New York harbor."

Marshall Loeb

MANAGING EDITOR

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MAKE-OR-BREAK TIME

Optimism intact, *Chairman Roger B. Smith, 62, paused to pose with President Robert Stempel, 54, his most likely successor, during GM's big show.*

PHOTOGRAPHS BY LOUIS PSIHOYOS

FOR GENERAL MOTORS

It's the year of the crunch for Roger Smith's visionary plans. If GM does not pull itself together, its directors will be under fierce pressure to make radical changes in 1989. ■ *by Thomas Moore*

The show was intended to herald a new start. As its miserable sales figures for 1987 came out, General Motors staged a multimillion-dollar extravaganza at New York's Waldorf-Astoria Hotel to display current technological prowess and the futuristic cars that are being readied for the next century. Over 14,000 specially invited guests—dealers, suppliers, employees, shareholders, and journalists—gawked at an impressive array of Captain Video cars, computerized design and engineering exhibits, and a spellbinding wall of TV screens strobing out GM's new message: The company has put years of turmoil behind it, has got its engineering and its management together, has completed its big spending, and is coming on as never before.

It was a good show, but the skeptical reception it got from many shareholders and the press—who dubbed it "Rogerama"—highlights a major problem: Who believes GM these days? A year ago Chairman Roger B. Smith promised institutional shareholders that market share would rise in 1987. It fell. The year before, he promised the same illusory turnaround.

One unimpressed ex-shareholder is billionaire entrepreneur Ross Perot, 57, who spells out his prescriptions for GM beginning on page 44. "Gorilla dust" is his polite expression for the perennially optimistic statements made by Smith and other company executives. Scooping up some imaginary dirt and tossing it in the air, Perot says, "When gorillas fight, they throw dust in the air to distract one another."

Other critics speak less colorfully but no less emphatically. "So far there has been no cigar," says Harrison J. Goldin, the comptroller of New York City and trustee for about one million GM shares held by the city employees' pension fund. "Shareholders are running out of patience." So are many GM dealers as they stare at their unsold inventories of cars. Says Ron B. Tonkin, a Chevrolet megadealer in Portland, Oregon, and president-elect of the National Automobile Dealers Association: "Roger Smith may be capable, but his name is on the door and he must go before GM can expect to turn this around."

What *is* clear is that 1988 will be a pivotal year for GM. If it does not pull out of its skid and start to recapture market share, GM's management and directors will have no credibility left at all. It is difficult to imagine that the company could begin 1989 without being compelled to make radical changes—perhaps not as radical as the ones Perot calls for but at the least a complete shakeup of top management.

Signs of GM's weakening financial condition are accumulating. Moody's recently joined other credit rating services in downgrading GM debt, explaining that the company "is not likely to recover its former dominance of market share and will continue to remain behind its leading competitors in cost performance." GM's stock is trading at a price only 35% above what it was seven years ago; Ford's is up seven times.

GM cars and dealer service has collapsed. In the 1987 national survey of customer satisfaction conducted by J.D. Power & Associates, the only GM car among the top 18 U.S. and import models was Cadillac (No. 7).

Meantime, Ford, which had its back to the wall just a few years ago, is humiliating GM. Its market share grew from 18.2% to 20% last year and though revenues are only two-thirds those of GM, its profits were higher for the second year in a row.

WAYNE EASTEP

The new look: *Coupes from Buick, Pontiac, and Oldsmobile fight the look-alike syndrome.*

Even a modest turnaround would be an impressive accomplishment. Sales in 1987 tumbled by a hair-raising one million vehicles from a year earlier, to 5.2 million. The company's share of the U.S. market fell to nearly 33% in December. Only ten years ago, GM made nearly half the passenger vehicles sold in the U.S. Some security analysts—and even some GM executives—doubt the company can ever regain its past glory. They think GM should resign itself to claiming, say, a third of the U.S. market, and focus on making more money. Smith, however, remains convinced that the company will rebuild its share to 40% by 1990—*and* be more profitable.

GM, whose vertical integration once made it the most efficient carmaker in the U.S., is now the high-cost producer (see chart, page 35). Customer satisfaction with

According to Ronald Glantz, auto analyst at Montgomery Securities, at the end of the third quarter GM's cash balance—cash plus marketable securities, minus long- and short-term debt—was a negative $10.58 per share, or minus $3.34 billion. That compares with a positive $23.37 per share, or $5.95 billion, at Ford. Some security analysts worry that further deterioration in sales this year might force GM to cut its dividend in 1989. That would almost certainly lead to Smith's resignation.

GM lost its market share in a good market, but will be fighting to regain it in a much

REPORTER ASSOCIATE *Stephen J. Madden*

tougher one. Consumer spending will grow only slowly over the next year, and FORTUNE expects auto sales to slow to 14 million units, from 15.2 million last year. At the same time, domestic overcapacity is growing and could rise to as much as three million units by 1990 as foreign producers build more factories in the U.S.

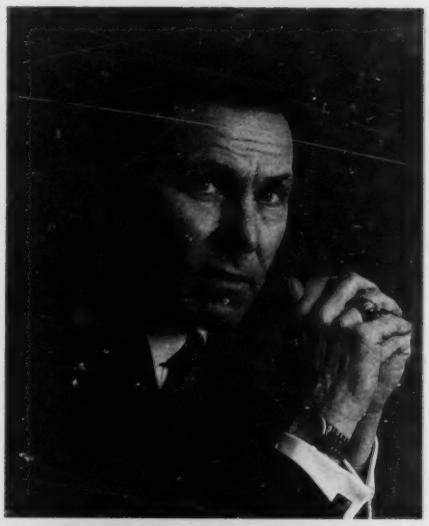
A power struggle has intensified among the top lieutenants who hope to succeed Smith—perhaps earlier than his scheduled retirement in 1990. This is further disrupting a company of nearly 800,000 employees who are still reeling from what one of them describes as "reorg after reorg."

HOW DID all this happen? In the early 1980s GM looked like the company that could do no wrong. It had beaten Ford and Chrysler to market with a lineup of fuel-efficient front-wheel-drive cars. And when oil prices fell it continued to outshine its competition because it had more big cars still in production.

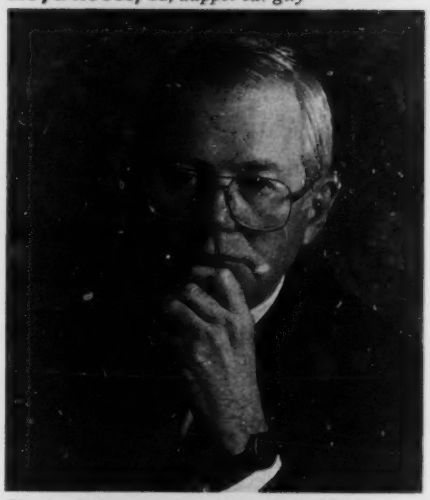
As GM's earnings picked up in 1983 and soared to record highs in 1984 and 1985, Smith threw the company into hyperdrive with a visionary plan to transform it into a 21st-century corporation. He spent over $45 billion—more than it would have cost to buy, say, Toyota—to modernize factories, revitalize car lines, and buy such high-tech companies as Perot's EDS, Hughes Aircraft, and Group Lotus, the British maker of high-performance cars.

He shook up the company with broad and frequent reorganizations, continuing a consolidation drive that began in the 1970s. He combined engineering groups, shucked off such marginally profitable businesses as heavy trucks and earthmoving equipment, and in 1984 lumped the five car divisions and Canadian activities into a small-car group (Chevrolet-Pontiac-GM of Canada) and a big-car group (Buick-Oldsmobile-Cadillac). Smith was widely hailed as a management visionary, the new Alfred P. Sloan Jr., whose organizational acumen in the 1930s made GM the world leader. In an era of managers obsessed with quarterly results, here was a man America needed, a man who dared to dream vast dreams and plan decades into the future.

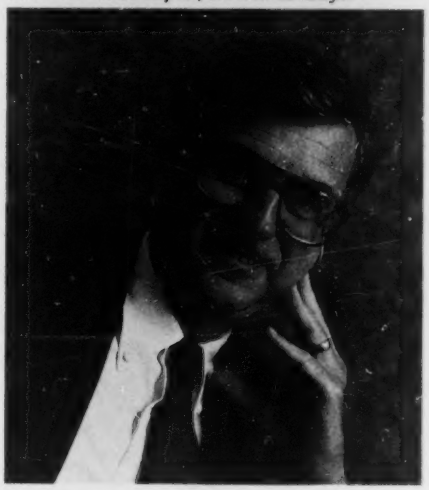
But he lost track of the short run. GM attempted so much so fast—new models, new plants, and new organizations—that it soon lost control of what it used to do well: building good cars for every pocketbook at comparatively cheap prices. Quality began to slip, styling stagnated, costs rose, and new models ran into delays.



Lloyd Reuss, *51, dapper car guy*



Elmer Johnson, *55, ambitious lawyer*



William Hoglund, *53, popular long shot*

Pretenders to the Throne

They're jockeying to succeed Roger Smith. These executives are behind the current front-runner, President Robert Stempel. Reuss is head of North American cars. Outsider Johnson, hired four years ago as general counsel, runs GM's staffs. Hoglund, who moved from finance to operations, heads Buick-Oldsmobile-Cadillac.

Confusion from the reorganization undoubtedly contributed to the problems. But Smith grossly underestimated the inertia within his company and failed to provide the leadership and clear goals that might have galvanized its 100,000-odd managers. In the best of circumstances, GM's bureaucratic structure and culture have ensured that change comes only glacially. During the profitable mid-Eighties, there especially seemed no reason to shift course. Managers lulled by success discounted the mounting evidence of trouble and dug in their heels.

"Roger defined GM's problem as inadequate capital spending over many years that could be solved with an overburden of capital spending," says Maryann Keller, auto analyst at the Furman Seltz Mager Dietz Birney securities firm. "He also knew he had to change GM's culture, but he thought it only had to be bent, not broken."

How, then, does Smith hope to fashion a new beginning? In fact, he and Robert C. Stempel, GM's president since 1987, can point to an array of accomplishments.

▶ **PRODUCT:** GM has rolled out more new models in 1987 and 1988 than in any other two-year period, says Stempel. Among them: Chevrolet's sporty Corsica and Beretta, a new full-size pickup truck, and the so-called GM-10 line of look-different midsize coupes for Buick, Oldsmobile, and Pontiac. The new Quad 4 engine is a winner (see box, page 39). The 1988 Cadillac Eldorado has grown longer than its predecessor and boasts a powerful new V-8.

Flexible automation will let the company tailor more and more models to market niches. Illustrating the possibilities, Smith refers to a recent changeover at the Linden, New Jersey, plant where GM builds the Corsica and Beretta. "On a Friday night they shut down making '88 Corsicas and Berettas. The team went in, reset the automation, and spent the weekend making pilot versions of the '89 model. On Sunday night they came back, reset the automation, and Monday they started to make '88s again. Now, that may not seem like much to you, but I can tell you we were never in our entire history able to run a pilot version of a new model on a regu-

lar production line." In the past any such changeover would have taken weeks.

▶ **QUALITY:** Smith and Stempel concede that quality has suffered in recent years but insist the problems are now behind them. Last year the company increased its warranty coverage to 60,000 miles and six years. "We looked at our product and said, 'Hey, we can do it,' " says Smith. "We have further to go in convincing our customers that it's there than some of our competitors do, but we're getting there. When quality comes through in the experience of driving the car, customers will know it."

Stempel adds that GM will sell roughly 3,000 sporty Pontiac Grand Ams in Japan this year. Says he: "It was an emotional event, in the middle of Michigan, to have an American flag on the side of a car in our first shipment to Japan." He stresses that these are standard quality, not specially prepared.

▶ **COSTS:** The company has begun to tackle its outrageous overhead. It is two years ahead of schedule in its plan to cut 40,000 salaried workers from its payroll and a total of $10 billion out of costs. Smith argues that some of the company's high costs are the inevitable result of changing over from old to new organizations and systems, and will evaporate when the transitions are complete. Gains will continue to come in manufacturing costs as GM phases out older cars whose designs make truly efficient manufacturing impossible.

▶ **CAPITAL SPENDING:** One of Smith's major talking points these days is that his company has largely finished modernizing its plants, while Ford and Chrysler have much to do yet. It will cost them more, he adds. GM bought its equipment when the investment tax credit was still in place and the dollar was strong. "The competition is buying presses right now from Japan," he says. "We bought them when the yen was 220 to the dollar. Just think what those would cost you right now at 125—if you could get them."

▶ **LABOR RELATIONS:** GM's negotiations with the United Auto Workers last fall were the first in years that weren't bitterly adversarial. Indeed, both sides said at the outset they wanted to cooperate as much as possible. In the contract it signed, GM made what appears to be a wise trade-off: assuring job security to most workers in exchange for new and less restrictive work rules in the factory.

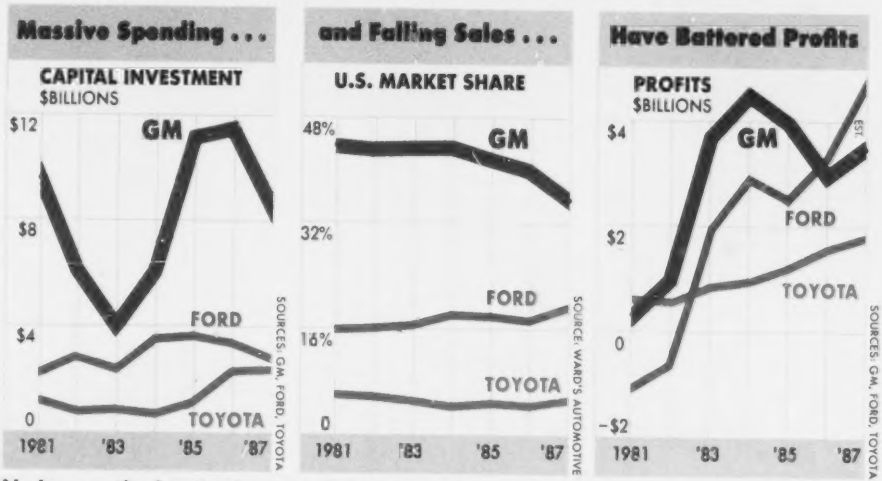
While the job guarantees may cost GM in the short run by keeping extra bodies on the payroll, it has drawn the union into a companywide dialogue on how best to organize work on the plant floor. Since the signing, GM has asked managers and workers at each plant to spend six months studying and agreeing upon work rule changes. The goal: to develop management styles that lean heavily on teamwork rather than old-fashioned authoritarianism.

Such accomplishments don't translate instantly into marketplace success, however. It may take years to turn around GM's reputation for bad quality and uninspired design. Despite many improvements, just about every GM car and truck nameplate lost market share last year. The Corsicas and Berettas, which have received generally good reviews, are piling up in dealers' lots. GM sold 18,659 in December—just over half its plant capacity—and dealer inventory now extends to 100 days, 40 days more than what is considered normal. The cars actually sold seem to be cannibalizing sales of other Chevrolet models.

The Buick Regal, the first of GM's new line of distinctively different GM-10 cars, got off to a slow start last year. Sales of the new improved Cadillacs declined, even if less than other GM cars. Cadillac's Italian-designed Allante, a Mercedes-like two-seater that sells for over $55,000, has bombed.

Smith's many bold ventures into new technologies and new management techniques have so far yielded uncertain payoffs. Some have shed unexpected light on deep-seated problems. Take New United Motors Manufacturing Inc. (Nummi), GM's joint venture with Toyota in Fremont, California. The shuttered plant Toyota took over had been a dog, with one of GM's most troubled work forces. Working with the UAW, Toyota selected and trained its new workers from that group and filled the plant with conventional machinery. "What GM learned at Nummi proved to be an embarrassment," says Keller. "They learned they didn't need robotics and that management was at fault, not the people who put cars together."

EXPECTING to turn the embarrassment into a lesson for all in the company, GM sent thousands of workers and managers through the factory. These people, Smith hoped, would take what they had learned to other GM plants and spread the gospel. With the new UAW contract, that may happen yet. So far, however, few plants have adopted the Nummi system in whole or in part. Old habits and distrust wore down whatever enthusiasm people



No longer the leader *in profits, GM is taking its lumps from heavy spending and sagging sales. Earnings bounced back last year, but that was largely because of an accounting change.*

The High-Cost Producer

1986	GM	FORD	TOYOTA
Passenger vehicles produced per employee	11.7	16.1	57.7
Labor cost per vehicle	$4,148	$2,379	$630
Earnings per vehicle	$343	$555	$466

SOURCES: GM, FORD, TOYOTA, AUTOMOTIVE INDUSTRIES

Wrestling *with costs, GM trails the world's No. 2 and No. 3 automakers. The gap also reflects differences in integration: GM makes 70% of its own parts, Ford 50%, and Toyota about 30%.*

who visited or worked at Nummi brought back with them.

More mysterious is the progress at yet another bold venture, the start-from-scratch Saturn program. Four years ago Smith promised that Saturn would revolutionize carmaking when it began operating in 1990. After launching Saturn with an immense splash as a $5 billion project, GM has said little. It has halved the investment and plans to build one assembly line rather than two. Says Saturn President Richard G. LeFauve: "We realize there's an overcapacity problem in the world, and we don't want to add to it."

Pontiac's spacey *new APV minivan won't look much different from this concept version when it starts rolling off assembly lines by the end of this year.*

The new company will supposedly best the Japanese at the small-car game not just by borrowing heavily from their manufacturing techniques, customer service, and management styles, but by leapfrogging them. Rumors abound that Saturn will boast manufacturing technology so flexible that customer orders, transmitted by computer, will be sent to the factory floor in sequence and filled within days. Blue-collar workers will be divided into only two categories: members, who cannot be laid off, and associate members, who can. All decisions will supposedly be made by consensus. One thing GM acknowledges is that workers will be paid salaries, not an hourly wage.

Smith vows that the Saturn plant will still produce, on schedule, a small car able to compete with the best of the Japanese. Skeptics, understandably, will believe it when they see it.

THE TROUBLED EDS acquisition reveals perhaps better than any of Smith's other innovations how deep-seated the obstacles to radical change are within GM. The personal dispute between Perot and Smith obscured a deeper war between an aggressive, entrepreneurial culture and the stubborn traditionalism of GM's management.

Smith's basic notion seemed brilliant. As GM acquired ever more information technologies, its data-processing and computer costs soared out of control. The company had more than 100 different computer networks; each represented a different fiefdom, and few could communicate with others. "We tried to get control of data processing two times, but we never could," says Smith.

So he bought EDS, recognized as one of the best computer systems specialists in the business, and dropped the whole mess in its lap: some 7,000 GM employees and all the hardware. In effect he spun off a cascading billion-dollar cost problem, repackaged it into an entrepreneurial company highly respected on Wall Street, and then financed the whole transaction by selling a special class of stock tied to EDS's profits, the so-called GM-E shares. "It was very clever," says Ronald Glantz of Montgomery. "Smith took an expense, capitalized it, and then put a stock market multiple on it."

The financial dividends were just for starters. Smith was counting on Perot, an authentic management and media hero, to lead his entrepreneurial commandos at EDS in helping to transform GM's old corporate culture.

It didn't work. Both sides are still trying hard to make the best of the relationship, but the romance has turned to bitterness. With Perot gone and Smith weakened, it may yet fall apart completely.

The basic problem: Smith did not understand what EDS could and could not do, and Perot didn't realize how little control Smith had over his company. Smith was under the illusion that EDS's technical wizards could program software for computer-assisted manufacturing. But EDS was largely a data processor and had little experience integrating computerized factories. "EDS doesn't write computer codes, as Smith thought," says a former GM executive. "Less than 10% of its employees are even involved in coding. And EDS didn't have a single expert in the code used for machine tools."

The deal, which Smith and Perot first hammered out by themselves, called for GM computer staffs and hardware to be transferred to EDS. But the companies couldn't agree on who those people were and what equipment constituted a computer. This led to vicious turf wars, says the former executive.

Pricing EDS services turned out to be equally incendiary. The deal stipulated vaguely that EDS would bill GM like any other outside customer. EDS pioneered fixed-price contracts pegged to a client's unit volume in data processing, which gave the company its competitive edge. If EDS reduced its costs but still maintained the agreed-on level of service, or if its client increased its volume of, say, health claims, it made a bigger profit. The company's steady record of 35% compounded annual growth in profits drove the stock price on Wall Street and, because Perot rewarded extraordinary performance with generous stock options, also drove EDS executives. Many have become millionaires.

BUT GM MANAGERS typically approached the pricing question from a strict cost point of view, as they did with most other GM divisions. What had once been simply a cost for them now appeared to be a cost plus an excessive profit. It galled them still more to think that the money coming out of their budgets was enriching EDS executives who were already rich.

In the end the GM managers simply refused to agree to the contracts EDS was proposing. As one top GM executive told another, "It will be a cold day in hell before I will make those bastards from Texas richer." A virtual war broke out between the EDS executives who were trying to get contracts signed and the 57 GM division managers who were reluctant to sign them.

The war is still smoldering. To this day only about a third of the contracts have been negotiated. Although EDS continues to do business with many divisions on a temporary cost-plus-5% basis, it has yet to sign fixed-price deals with GM's two largest divisions, Buick-Oldsmobile-Cadillac and Chevrolet-Pontiac-GM of Canada.

INVESTOR'S SNAPSHOT

GENERAL MOTORS

SALES (latest four quarters)	**$100.9 BILLION**
CHANGE FROM YEAR EARLIER	DOWN 1%
NET PROFIT	**$3.1 BILLION**
CHANGE	DOWN 18%
RETURN ON COMMON STOCKHOLDERS' EQUITY	**10%**
FIVE-YEAR AVERAGE	14%
STOCK PRICE RANGE (last 12 months)	**$94.125–$50**
RECENT SHARE PRICE	**$63.375**
PRICE/EARNINGS MULTIPLE	**7**
TOTAL RETURN TO INVESTORS (12 months to 1/15/88)	**–1%**

Perot remonstrated with Smith when he realized that GM was dragging its feet on the contracts. When that didn't get results, he started to criticize GM, first before the board, then publicly. To Perot the issue was simple. GM was not keeping commitments Smith agreed to in the acquisition. The friction eventually led Perot to propose and accept GM's buyout offer.

Perot says he was careful to protect the EDSers who would stay behind. As part of his deal, he got Smith to agree not to fire any EDS employees, except for moral turpitude, and to accelerate payment of many old EDS stock options to this January. At recent share prices of $36, the option packages are worth from several hundred thousand dollars to several million dollars for each of the 182 original EDS executives who remain. An important question now is, how many of those executives will take the money and run? That may depend on whether GM continues to reward top performance with outsize stock options and how much it interferes in EDS business. So far none have left, but if many do, GM will have wasted the money it spent on the company. Says a former GM executive: "If the top people leave, GM will have bought nothing but an empty paper bag."

Smith is not worried. He says he has made available plenty of new options to keep these executives happy. More important, he says, the contracts with EDS are getting signed now and EDS is making progress in integrating computer systems and otherwise achieving the EDS-GM vision.

No such turf battles have surfaced yet to plague the Hughes acquisition. The space and electronics defense contractor remains autonomous. The main question is whether GM will realize the technological synergies that Smith foresaw in the relationship. These do in fact seem to be developing, if slowly. Hughes now gets 1.4% of its $7 billion in revenues from GM, for projects ranging from robot vision systems to antilock brakes.

ON THE SURFACE Roger Smith shows no signs of a man whose company is in trouble or whose job is threatened. He laughs off rumors that other top executives at GM are plotting to push him out early. He says: "That's just not possible at GM."

But heated internecine skirmishing has indeed broken out, generally pitting the finance guys against the car guys against the legal guys. Smith says he has every intention of naming his own successor, as most GM chief executives before him have. This time, however, the board of directors, smarting from criticism from Perot that they are a rubber stamp and losing face with Wall Street, may play a greater role.

"The board changed after the mess with Perot, particularly the businessmen outsiders," says Maryann Keller. She points out that American Express Chairman James Robinson and Procter & Gamble Chairman John Smale have their own reputations to worry about on Wall Street. "These guys can be sued," she says. "They've approved all the financial decisions and were named in editorials as people who shouldn't let GM get away with this mismanagement." Both declined to talk with FORTUNE about GM.

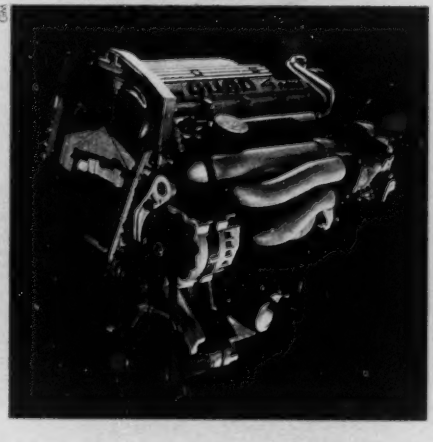
Most GM chairmen, who hold the chief executive's title, have come out of finance, while presidents have tended to be engineers or marketers. But Roger Smith has already said publicly that he might not follow the tradition of naming a finance executive to succeed him. That would rule out the man holding his former job, chief financial officer F. Alan Smith (no relation). Many observers think that would be wise. Says Keller: "He knows absolutely nothing about cars."

The front-runner now is Stempel, a towering man who wears golden cuff links featuring his astrological sign (Cancer) and doesn't talk so much as boom like Tony the Tiger in the Kellogg's Frosted Flakes commercials ("They'R-R-RE GR-R-REAT!"). The articulate and hard-charging Stempel is a tried and true car guy, an engineer who rose to head the Buick-Oldsmobile-Cadillac division. After BOC profits fell he was made executive vice

THE LITTLE ENGINE THAT COULD

■ At first glance the Quad 4 is just another so-called four-valve engine, similar to ones Toyota and several other foreign automakers build. All have two intake and two exhaust valves per cylinder; conventional engines have just one of each. Fuel and air flow in—and exhaust flows out—more freely, and the design allows for a much more efficient combustion chamber shape. The result: more power *and* fuel economy. The Quad 4 puts out 150 horsepower and has an EPA highway rating of 35 mpg.

But in sweating the details of the Quad 4, the Oldsmobile engineers who developed it broke new ground. It has



extraordinarily low friction, thanks partly to cylinder bores that set a new standard for roundness. It is also unique in having neither distributor nor spark plug wires; a computer triggers sparks from coils mounted on each plug. Because of such refinements, it burns fuel so completely that it needs less emission-control equipment than all other engines sold in the U.S.

Oldsmobile hasn't been able to keep the engine to itself for long. It's now an option in Pontiacs and Buicks. Eventually it will be the heart of a new GM engine family ranging from superfrugal four-bangers to superpowerful V-8s.

president in charge of the truck and bus group and overseas operations—exiled, some say. These businesses did not do spectacularly under his tutelage either, although he made a name for himself for tough-minded cost cutting—something Wall Street thinks GM needs a lot more of.

Many in the industry were shocked when Smith named Stempel president rather than Stempel's successor at BOC, Lloyd Reuss. But, says one insider, Smith never liked Reuss, a dapper dresser who bridles at any interference in running his show even when it's from the chairman. In the end, says the insider, Smith concluded that BOC's problems were due more to Reuss than to Stempel. Now head of all North American cars, Reuss is still an important force to be reckoned with and an experienced infighter.

One long shot is William E. Hoglund, the current head of BOC. Bright and personable, Hoglund is one of the most popular top executives at GM. He is also one of the few finance people with extensive car experience. Before BOC he headed Saturn and Pontiac, which he spiffed up with a sporty performance image that has made the division one of GM's few winners. Drawbacks: He reportedly doesn't get along with Stempel and has yet to be named to the board.

THEN THERE IS Elmer Johnson, executive vice president in charge of operating staffs. Among all the pretenders to GM's throne, he is probably the most intriguing—in every sense of the word. Smart, ambitious, even Machiavellian according to some reports, Johnson was managing partner at the prestigious Chicago law firm of Kirkland & Ellis until Smith hired him as general counsel in 1983. That makes Johnson an outsider—his biggest obstacle and yet his biggest advantage.

GM has never named an outsider to the top spot, much less a lawyer. And if the company muddles through its latest problems, it probably won't this time around either. If GM's market share falls much further, however, the board may be tempted to do so, if only to shake up top management. In that case Johnson would be a logical choice. He has played similar reorganization roles, not only at his law firm but at International Harvester, where as general counsel he helped orchestrate the company's restructuring.

When Smith first offered him the general counsel's job, Johnson turned him down. Smith later consulted with Irving S. Shapiro, Du Pont's retired chairman and a lawyer himself. Shapiro persuaded Smith to broaden his definition of the job. "The role of CEO has changed from an inside man to more of a public man," says Shapiro. "I told Smith he would do himself a favor if he found a general counsel who could help represent him in his role opposite government and the public."

Smith went back to Johnson with this broader job description and an unwritten understanding that he, like Shapiro at Du Pont, would have a shot at the top job. Johnson has since moved up fast. Last year he was promoted to executive vice president and named to the board, where he has made some important friends. Johnson negotiated the Hughes deal and handled the messy Perot buyout.

Soon the perennially feuding car guys and finance guys had found a common enemy and started leaking stories about how Johnson was overreaching himself.

But last year Johnson blundered by making himself too conspicuous. He attacked Perot personally after the buyout, saying that the first time he knew Perot had a conscience was about three minutes after he had the buyout check in his hand. That scored points on the inside but stirred up Perot, who joined his voice with other stop-Elmer forces at GM. Charged Perot: "Only in America could *Playboy*'s former lawyer and a guy who couldn't make a car if his life depended on it be named head of the biggest car company." (Johnson once represented Playboy President Christie Hefner.)

Last fall the *Detroit Free Press Magazine* ran a flattering cover story that asked whether Johnson would be the next chairman of GM. It featured a picture of Johnson, an amateur trumpet player, tooting his own horn, and quoted him as saying that GM was too "fat, dumb, and happy." That further ruffled feathers at GM, where the best profile is a low profile.

Soon the perennially feuding car guys and finance guys had found a common enemy and started leaking damaging stories to the press and security analysts about how Johnson was overreaching himself. Johnson, so one of the stories goes, was chewed out by the executive committee for his unseemly behavior and told to stop giving interviews to the press. Says Perot: "He's gone underground now."

For the moment the car guys seem to have won. Smith says any one of his executive committee members—Stempel, Reuss, Johnson, F. Alan Smith, and Donald Atwood, head of GM's electronics groups—would make a good CEO, but he seems to be favoring Stempel, whom he deferred to regularly at the Waldorf festivities. Times have changed, he seems to be saying between the lines, and now GM needs a car engineer more than a financial wizard.

Many industry people agree. But another school of thought holds that Smith's failings have more to do with his leadership abilities—or lack of them—than his accounting background. *Call Me Roger*, a critical book to be released in April by one of Smith's former speechwriters, Albert Lee, makes this case. So does Maryann Keller, who is writing a book—with cooperation from GM—about GM in the 1980s. "Roger Smith is an introvert, a loner, not a leader," she says. "The chairman's role should be to inspire designers and engineers, the hourly workers, the dealers, and consumers. That's more important than having gasoline in your blood."

Former Du Pont chairman Shapiro is even more dubious about the supposed virtues of car people. Says Shapiro: "The CEO's job is to solve problems, to set policy for the future, to select the key people to do the work, and to be the corporation's face to the public." Both Keller and Shapiro suggest Johnson could probably play this role better than any of the other contenders.

IF GM PULLS its fat out of the fire this year, ending with higher sales and profits, such talk is likely to fade quickly. Roger Smith could go on to anoint his successor and retire with grace—perhaps even with the restored mantle of the brilliant visionary that he wore so briefly a couple of years ago.

But if 1988 ends with failure, excuses, and promises, a lot of people—big shareholders, dealers, and probably directors—are apt to conclude that the only solution is a drastic revamping. "The problem is at the top of the organization," says Glantz. "You have people in the middle sabotaging the reorganization because they are afraid of losing their jobs. Some don't even know what their jobs are. But the best way to send a message to the middle is to fire the people at headquarters." When Lee Iacocca took over Chrysler, he fired 33 of the 35 top executives. That was a message. F

IT'S 'BUSH . . . BUT' FOR PRESIDENT

Corporate chiefs remain mostly Republican, with the VP their favorite candidate. But open the field to noncandidates, and his support slides. ■ *by Sarah Smith*

MITCH KEZAR

IRWIN JACOBS
Minstar

GORDON LUCE
Great American

BRUCE DAVIDSON—CRAY

JOHN ROLLWAGEN
Cray Research

TO THE CHIEFS of America's largest corporations, the 1988 presidential election shapes up as a race between two old political warhorses, George Bush and Bob Dole. Perhaps a bit too confidently, the CEOs think a Republican is a shoo-in, and the only question is which of the Big Two it will be. (See the following story for an examination of the personalities and positions of Bush and Dole.) But the corporate leaders questioned in the latest FORTUNE 500 CEO Poll also think the professed candidates in general are far from inspiring. Asked to choose the best next President from among anyone in America, the CEOs include only two declared candidates in their top five picks.

FORTUNE's survey was conducted from January 11 to 19 by Clark Martire & Bartolomeo, an opinion research firm. The 161 respondents were selected from among the chief executives of the FORTUNE Industrial 500 and Service 500 companies.

Of the CEOs interviewed, 90% foresee a Republican as the 41st President. Never mind the Iran-contra scandal, the falling dollar the towering twin deficits, and the crash. E. B. Leisenring of Westmoreland Coal speaks for many when he says, "It is like we are on cloud nine compared to where we were with Carter. We had prime interest rates near 20% and runaway inflation." CEOs also spread the blame for mistakes pegged to the Reagan Administration. Leisenring says, "The federal deficit is a very serious problem. I think the Democratic-controlled Congress shares every bit as much of the blame for that as the President."

By a margin of 2 to 1 executives believe Bush will win the Republican nomination. His advantage is less but still impressive when the CEOs are asked to name the candidate from either party they most favor for the presidency. He gets 51% of their votes, an overwhelming margin among the 13 declared candidates. Dole is second with 34%, the only other candidate in double figures. The No. 1 Democrats: Bruce Babbitt and Albert Gore, with just 2% each.

Why are the CEOs so bullish on Bush? It's not character or charisma nearly so much as his résumé. Nine out of ten executives who think he would be the best President mention his experience. Says Gordon Luce of Great American First Savings Bank in San Diego: "I like the combination of government positions he has had: his involvement with the CIA, his work in China, his leadership as Republican National Committee chairman and then as Vice President. He's been through difficult times in the Reagan Administration and the Nixon-Ford days."

Other chief executives like Bush because he is one of their own. In the 1950s he founded a number of oil companies, including Zapata Petroleum with J. Hugh Liedtke, now chairman of Pennzoil. Kenneth Lay of Enron Corp., a Houston energy company, says, "I like first that he started his own company and that he grew it and kept it profitable. Also, heading up the CIA is more like being a chief executive than a legislator: You have got a lot of people working for you, and you have got to do a lot of delegating. That is quite different from being a Senator."

Most CEOs are out of step with Republicans in Iowa, site of important caucuses February 8. Dole leads Bush there, according to recent polls. Many Dole loyalists in executive suites echo Irwin Jacobs, the Minneapolis corporate raider who heads Minstar. "My opinion is based on his record in government and his close involvement with the White House," says Jacobs. "Dole understands the House and the Senate. These are not strangers to him. He has lived and died with these people a lot of years." Robert Liuzzi of CF Industries, a farm cooperative, prefers Dole's record to the Veep's: "I think, frankly, the office of Vice President doesn't allow for much day-to-day involvement in the affairs of the country," he says. David Coffin of Dexter Corp., a chemicals company, feels one of Dole's strengths is his image. Says he: "Bush projects poorly through the media, especially the tube. Dole projects well. He is straightforward, tough, articulate." Coffin thinks Dole would go after the national debt with more fervor than Bush would.

CEOs believe the Democrats just are not offering anyone of Bush's or Dole's stature. Says Joseph Williams of Warner-Lambert: "I don't think they have the record. There just isn't anybody who stands out." That puts the Democratic nomination up for grabs; 43% of the CEOs won't even guess who will get it. A quarter of those polled believe New York Governor Mario Cuomo, who isn't a candidate, will be drafted as the party's choice, although not one thinks he would make the best President. Executives dismiss Gary Hart's reborn campaign—only 2% rank him the Democratic front-runner.

Many executives think America will not get the best possible President in

REPORTER ASSOCIATE *Julianne Slovak*

1988. Reason: Their favorites aren't running. A lot of Bush and Dole supporters abandon their candidate when asked to choose from a wide-open field of all Americans. Bush's support drops from 51% to 33%, Dole's from 34% to 15%. Surprisingly, executives' second choice (tied with Dole) is a Democrat, New Jersey Senator Bill Bradley, who isn't running.

Bradley supporters verge on the passionate. Says Gerry Mitchell of Dana Corp: "I am not a Democrat. This is a Republican talking, but I'd vote for Bradley instead of any of the Republicans they have up there." Bradley's big draw is his intelligence. Jerry Pearlman of Zenith Electronics says, "My interest in the Senator stems from the fact he is able to address complex issues, as he did in the tax area and the international debt arena." One fan thinks Bradley's brains are the reason he isn't running. "He is obviously interested in being President at some point," says John Rollwagen of Cray Research. "I think he is perhaps smart enough not to be the next President—because the next President has a good chance of being clobbered."

Other CEOs favor such disparate noncandidates as Georgia Senator Sam Nunn and White House Chief of Staff Howard Baker. CF Industries' Liuzzi, when offered a wide-open choice, drops his support of Dole in favor of Lee Iacocca. He probably will not get his wish, but FORTUNE 500 CEOs in general possess greater than average means to get theirs. The chiefs' enthusiasm for Bush is a factor pundits should not overlook. ■

Q Which party do you think will capture the White House in 1988?

A

Republican	90%
Democrat	7%
Not sure	3%

Q Who do you think will be the Republican nominee?

A

George Bush	66%
Robert Dole	33%
Pat Robertson	1%

Q Who do you think will be the Democratic nominee?

A

Not sure	43%
Mario Cuomo	25%
Michael Dukakis	17%

Q Of the 13 major candidates for President, which one would you most like to see elected?

A

George Bush	51%
Robert Dole	34%
Pete du Pont	3%
Jack Kemp	3%
Bruce Babbitt	2%
Albert Gore	2%
Michael Dukakis	1%
Alexander Haig	1%
Richard Gephardt	0%
Gary Hart	0%
Jesse Jackson	0%
Pat Robertson	0%
Paul Simon	0%
No opinion	3%

Q Which person—not only among declared candidates but also anyone else—do you think would make the best next President of the U.S.?

A

George Bush	33%
Bill Bradley	15%
Robert Dole	15%
Sam Nunn	5%
Howard Baker	4%
Lee Iacocca	3%
Jack Kemp	3%
Ross Perot	1%
George Shultz	1%

Receiving one mention each:
Bruce Babbitt, William Clements, Albert Gore, Jeane Kirkpatrick, Richard Nixon, Pete du Pont, Charles Robb, Donald Rumsfeld, Alan Simpson, Richard Thornburgh, Jim Wright

Don't know	8%

JERRY PEARLMAN
Zenith Electronics

JOSEPH WILLIAMS
Warner-Lambert

ROBERT LIUZZI
CF Industries